



ON SECOND THOUGHT with BETH PRIDE

Communication 101

One thing that service providers are great at is taking care of you. They will pick up your shipments, export them out of the country, clear them through Customs

and deliver them halfway around the world and they won't bother you with all of the nitpicky details that they constantly have to deal with. This is certainly great from an overhead perspective. Who has time to worry about every single package they ship? It's much more efficient to manage by exception and focus on the shipments that get stuck.

The reality with all this great service is that you have no visibility to things that you should probably fix yourself rather than rely on your service provider.

One great example is the Country of Origin declaration. We often see commercial invoices that do not state the Country of Origin of an item, which requires your service provider to guess at the Country of Origin for the items you are shipping.

Guessing can easily result in the wrong answer. A common default is assuming that shipments originating in the United States have a Country of Origin of U.S. This can lead to incorrect export declarations, e.g. stating that the goods are domestic when they could be of foreign origin. For shipments to countries that have free trade agreements, this could easily result in your service provider guessing that the goods qualify for an FTA. They might decide to help you avoid incurring duties and taxes by making a duty-free entry based on an FTA when you haven't qualified your goods.

Another service that your freight forwarders and customs brokers will provide is classification. Not everyone knows how to assign export and import classifications, and the service providers know that you can't move goods without these classifications, so they'll try to figure them out for you. The issue is that the descriptions that we use for our products may not clearly describe the item, and the classification assigned by the service provider could be wrong. An incorrect classification on the

export side could result in the export of goods without a license or proper license authorization. On the import side, an incorrect classification can result in overpayment or underpayment of duties and taxes. This can directly impact you or your customer's bottom line.

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It can also result in a miscalculation of estimated Cost of Goods Sold (COGS), which can impact your profitability. An incorrect classification can result in Antidumping Duties (AD) or Countervailing Duties (CVD) being paid or not being paid, and can also trigger a review from other government agencies. But you probably won't notice these errors because your service provider says it's going to "take care of everything."

Service providers will also assist you export licenses. They may apply for and obtain licenses for your products to the destinations and consignees that you note on your shipments, but they may not know who is the ultimate consignee. When they get the licenses, they may not communicate

the license conditions to you, and there may be restrictions or reporting requirements that are your responsibility.

All this great service certainly saves you money and time—and who doesn't want that! The reality, however, is that it could be creating misstatements, misdeclarations and potential violations that you had no intention of making. This can put you at a significant disadvantage when you are trying to enter and compete in a foreign market. And, if you're selling ex-works, your customer will likely see these issues. For all this great service, you are risking your brand, exposing yourself to financial and regulatory risk and potential customer satisfaction concerns.

So how do you ensure that the first-class service you deserve doesn't dig you into a hole?

It comes down to communication. Develop standard operations procedures to tell your service providers about your specific products and the agencies by which they are regulated. Make sure your documents clearly state the Country of Origin, classification, license authorization and value for each item being shipped so your service providers don't have to guess, and instruct providers to call you for missing documents or information. Tell them if you participate in free trade agreements or other programs, and if you have licenses or products subject to ITAR. And lastly, take a field trip. Spend a day with your service providers, see what kinds of issues they face on a regular basis, and work with them to figure out how to tender shipments that won't need a fix later.

Of course, we should acknowledge that service providers are only offering all these great services because all too often exporters and importers don't even have a basic grasp on their responsibilities with regards to crossing borders. Too many companies feel that they have done their job by outsourcing their export shipping and customs clearance operations to a service provider. But in reality, that it isn't anywhere close to acceptable. We also recognize that the service providers would love it if their clients took on the level of responsibility that they should under the regulations.

Our recommendation is that service providers have a quarterly or annual meeting with their clients and remind them of their responsibilities under the Customs Modernization Act and the Export Administration Regulations. Another option is to hand this article to your clients to help them to better understand their responsibilities and risks related to exports and imports.

Beth Pride is president of trade consulting and training firm BPE Global and can be reached at 1-415-845-8967 or beth@bpeglobal.com. ■